

**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LETCHER COUNTY SHERIFF

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the Letcher County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$1,432 from the prior year, resulting in no excess fees for calendar year 2004. Revenues increased by \$55,138 from the prior year and expenditures increased by \$56,570.

Debt Obligations:

Capital lease principal agreements totaled \$62,214 as of December 31, 2004. Future principal and interest payments of \$64,024 are needed to meet these obligations.

Report Comments:

- The Sheriff Should Make Loan And Lease Payments Timely
- The Sheriff Should Have A Written Security Agreement With The Depository Institution
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Letcher County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 7, 2008, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Jim Ward, Letcher County Judge/Executive
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Make Loan And Lease Payments Timely
- The Sheriff Should Have A Written Security Agreement With The Depository Institution
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Letcher County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

April 7, 2008

LETCHER COUNTY
DANNY WEBB, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

Federal Grants		\$	16,536
State Grants			26,966
State - Kentucky Law Enforcement Foundation Program Fund			17,160
State Fees For Services:			
Finance and Administration Cabinet	\$	14,442	
State Fee Claims		27,303	
Conveying Prisoners		<u>8,375</u>	50,120
Circuit Court Clerk:			
Fines and Fees Collected			325
Fiscal Court			62,600
County Clerk - Delinquent Taxes			7,432
Commission On Taxes Collected			238,256
Fees Collected For Services:			
Auto Inspections		8,803	
Accident and Police Reports		329	
Serving Papers		24,282	
Carrying Concealed Deadly Weapon Permits		<u>5,340</u>	38,754
Other:			
10% Add-On Fees		26,719	
Sheriff's Fee		3,550	
Reimbursement of Sheriff Bond		110	
Court order Reimbursement		742	
Reimbursement for Feeding Jurors		448	
Election Committee		765	
Reimbursement for Uniforms		100	
Bank Shares		<u>4,638</u>	37,072
Interest Earned			885

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
DANNY WEBB, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

Revenues (Continued)

Borrowed Money:

State Advancement	\$ 110,000	
Bank Loans (Note 4)	49,500	
Lease Proceeds (Note 5)	17,106	\$ 176,606

Total Revenues		<u>672,712</u>
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Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	182,650
Office Gross Salaries	44,315
Dispatcher Gross Salaries	57,806
Victims Advocate	25,350

Employee Benefits-

Employer's Share Social Security	26,100
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Contracted Services-

Vehicle Maintenance and Repairs	8,755
Accounting Services	2,149
Wrecker Service	475
Maintenance on Office	50

Materials and Supplies-

Office Materials and Supplies	8,834
Postage	879
Uniforms	5,613
Gasoline	27,016

Other Charges-

Dues	486
Food for Jurors	893
Bond	2,464
Paging Service	180
Carrying Concealed Deadly Weapon Permits	2,655
Water Service	282
Copy Machine	546

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY

DANNY WEBB, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges- (Continued)

Phone and TV Service	\$	611	
Training Services		1,802	
Computer Services		1,577	
Highway Safety Awareness Materials		1,338	
Transporting Prisoners		475	\$ 403,301

Capital Outlay-

Vehicles			26,550
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Debt Service:

State Advancement	110,000		
Bank Notes	66,362		176,362

Total Expenditures		\$	606,213
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Net Revenues		\$	66,499
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Less: Statutory Maximum			64,953
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Excess Fees		\$	1,546
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Less: Training Incentive Benefit			1,546
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Excess Fees Due County For Calendar Year 2004		\$	
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The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from subsequent tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent for the first six months and 22.08 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board of committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

Note 4. Notes Payable

A. On January 6, 2004, the Letcher County Sheriff borrowed \$29,500 to purchase a vehicle for the Sheriff's Department. The terms of the loan agreement require the Sheriff to pay one principal payment of \$29,500 plus interest at the rate of 6% per annum due on April 6, 2004. This loan was paid off on May 12, 2004.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 4. Notes Payable (Continued)

B. On June 29, 2004, the Letcher County Sheriff borrowed \$20,000 to make payroll and other office expenses. The terms of the loan agreement require the Sheriff to pay the principal payment of \$20,000 plus interest at the rate of 6% per annum on the unpaid principal balance from June 29, 2004 until paid in full, due on September 28, 2004. The Sheriff paid this loan off subsequent to September 28, 2004.

Note 5. Leases

A. On March 7, 2003, the Letcher County Sheriff entered into a lease agreement to purchase four (4) automobiles. The terms of the agreement require a monthly payment of \$2,238 for 42 months beginning April 15, 2003 with final payment to be due on September 15, 2006. The total remaining principal balance was \$47,760 on December 31, 2004.

B. On May 27, 2004, the Letcher County Sheriff entered into a lease agreement for \$17,106 to purchase a 2004 Chevrolet Tahoe. The terms of the agreement require a monthly payment of \$598 for thirty (30) months beginning July 15, 2004, with final payment being due on December 15, 2006. The total remaining principal balance was \$14,454 on December 31, 2004.

Note 6. Special Accounts

A. Street Level Drug Investigation and Equipment Fund

The Letcher County Sheriff had a Street Level Drug Investigation and Equipment Fund account. The account had a beginning balance of \$1,995, interest of \$11, and expenditures of \$1,745. The account had an ending balance of \$261 as of December 31, 2004.

B. Drug Forfeiture Account

The Sheriff had a drug forfeiture account. The account had a beginning balance of \$200, revenues of \$16,146, and expenditures of \$14,994. The account had an ending balance of \$1,352 as of December 31, 2004.

Note 7. Grants

A. Operation UNITE Grant

The Letcher County Sheriff's office received funding from UNITE for reimbursement of salaries and other employment benefits for the time officers were involved in task force activities targeting illegal drugs. The Sheriff's office received reimbursements of \$7,970 from UNITE during calendar year 2004.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 7. Grants (Continued)

B. Governor's Highway Safety Program

1. The Letcher County Sheriff's office was approved to receive a highway safety grant in the amount of \$7,800 during calendar year 2004. The contract period was from October 1, 2003 until September 30, 2004. The purpose of the grant was to educate, inform, enforce and target violators of Kentucky traffic laws and make drivers more safety conscious while driving. During calendar year 2004, the Letcher County Sheriff's office received and expended \$5,941 from this grant for salary and benefits, public information, and educational materials. There was a remaining balance of \$1,859 on the grant at the end of the contract period. The contract states "No costs incurred for this project will be eligible for reimbursement after the contract period is over."

2. The Letcher County Sheriff's office was approved to receive a highway safety grant in the amount of \$5,800 during calendar year 2004. The contract period was from October 1, 2004 until September 30, 2005. The purpose of the grant was to educate, inform, enforce, and target violators of Kentucky traffic laws and make drivers more safety conscious while driving. No funds were received or expended from this grant in calendar year 2004.

C. Victim Advocate Funding

The Letcher County Sheriff's office received funding through the Office of the Attorney General, Frankfort, KY for a victim advocate staff position. The Sheriff's office received \$26,966 for salary and benefits for this staff position during calendar year 2004. The funds were expended for the intended purpose.

D. USDA Rural Development Grant

The Letcher County Sheriff's Office received a grant through the Letcher County Fiscal Court from the USDA Rural Development in the amount of \$9,400 to assist in purchasing a rescue vehicle for the Sheriff's Office. The funds were used for the intended purpose.

Note 7. Subsequent Event – Missing Evidence Money

The Sheriff informed us that his office confiscated evidence money in the amount of \$2,440. On February 2, 2006, an order of forfeiture was issued forfeiting 10% of the cash to the Commonwealth Attorney's office with the remainder to be distributed to the Letcher County Sheriff's office. The money is missing from the Sheriff's evidence and could not be distributed in accordance with the order of forfeiture. This is currently under investigation by the Kentucky State Police.

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COMMENTS AND RECOMMENDATIONS

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Make Loan And Lease Payments Timely

The Sheriff did not make timely payments on an operating loan and two lease agreements. During 2004, the Sheriff had an operating loan of \$20,000 which was to be paid in full by September 28, 2004. The Sheriff did not pay the loan on time and on December 31, 2004, the loan plus interest was still outstanding. The Sheriff also had two lease agreements requiring monthly payments. The Sheriff did not make the lease payments monthly as required by each lease agreement. We remind the Sheriff that late charges for loan and lease payments not made timely are not an allowable expense of the Sheriff's fee office. We recommend the Sheriff make required installment payments on a timely basis in the future.

Sheriff's Response: Payments will be made on time.

The Sheriff Should Have A Written Security Agreement With The Depository Institution

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board of committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral at December 31, 2004. We recommend the Sheriff obtain a written security agreement with the depository institution.

Sheriff's Response: This has been corrected for 2005.

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS

The Sheriff's Office Lacks Adequate Segregation Of Duties

We noted the lack of adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank reconciliation and the balance in the checkbook.
- The Sheriff should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the quarterly report.
- The Sheriff should require dual signatures on all checks and should periodically compare invoices to payments. The Sheriff should document this review by initialing and dating the invoices.

Sheriff's Response: All of these recommendations will be instituted.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Letcher County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated April 7, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Letcher County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Make Loan And Lease Payments Timely
- The Sheriff Should Have A Written Security Agreement With The Depository Institution

This report is intended solely for the information and use of management, the Letcher County Fiscal Court, and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

April 7, 2008

